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USDOC FOR 4332/ITA/MAC/WH/OLAC
USDOC FOR 3134/ITA/USCS/OIO/WH/RD
TREASURY FOR OASIA, DAS LEE AND JHOEK
NSC FOR FEARS
SOUTHCOM ALSO FOR POLAD
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SUBJECT: PT EXPECTS LULA TO ADVANCE THE PARTY'S AGENDA

REF: BRASILIA 2578

SENSITIVE BUT UNCLASSIFIED - PLEASE PROTECT ACCORDINGLY

SUMMARY

¶1. (SBU) Summary: Officials of President Lula's Workers' Party (Partido dos Trabalhadores - PT) downplayed reports of tensions between the President and his party. The PT considers the 2006 elections to have been a referendum on President Lula's record and his vision for the country and believe they have a solid mandate to expand programs for the poor. They said Lula and the PT are of one mind on the agenda for the second term, in which the government will seek to promote GDP growth of at least 5 percent by lowering interest rates, while expanding social programs, and promulgating political reform. Social security reform is not on the agenda and labor reform is considered unlikely; the government may attempt a limited tax reform. Foreign policy is not expected to change, as the PT remains enamored of the "south-south" approach. The PT's National Directorate (DN), meeting in late October, announced that the party's third National Congress will take place in July 2007 in Brasilia. Whether party president Ricardo Berzoini, who stepped aside in September after being implicated in the "dossier" scandal, will return to his post remains unclear. The National Congress is expected to move internal elections for party president and DN from late 2008 to late 2007. In 2008 municipal elections in Sao Paulo, the PT is likely to nominate former Mayor Marta Suplicy and considers it likely that her opponent will be former Governor Geraldo Alckmin of the Brazilian Social Democracy Party, who lost this year's presidential election to Lula. If Suplicy wins, she would become the PT's most likely candidate to succeed Lula. We believe PT members exaggerate the degree of their influence over

Lula and will be disappointed when they see him continue to govern like the pragmatic centrist that he has shown himself to be. End Summary.

¶2. (U) In late November, President Lula achieved the remarkable feat of uniting almost the entire Brazilian Democratic Movement Party (PMDB) as the anchor of his governing coalition. The PMDB, Brazil's largest political party, has been sharply divided for the past 20 years; during his first term, Lula had the support of one wing, while the other was in opposition. Lula's political success, however, has led political commentators to question whether his own PT will continue to fully support his government. Many PT members reportedly harbor resentment over the way Lula campaigned for re-election independent of his own party, often without even mentioning it during public speeches and appearances. Some also blame the corruption scandals of Lula's first term for creating electoral problems for the party, though the PT ultimately did better than expected, winning 83 seats in the Chamber of Deputies (second highest after the PMDB's 89) and five governorships, including in the important state of Bahia. During his first term, Lula was often criticized by members of his own party for his orthodox macro-economic policies. Many PT militants are also known to be uneasy with the government's entering into alliances across ideological lines, i.e., with non-leftist parties.

¶3. (U) In addition to the Socialist and Communist parties on the left, Lula's coalition will include not only the centrist PMDB but also several so-called "rent-a-parties" which, to the very limited extent that they have a political identity, occupy various center-right spaces on the political spectrum, and many of whose members were implicated in one or more of the corruption scandals of Lula's first term. Lula has also reportedly obtained the support of

SAO PAULO 00001264 002 OF 006

the center-left Democratic Labor Party (PDT) and the Green Party (PV) and some smaller entities, and he appears to have a solid working majority.

¶4. (U) Over the past ten days, Poloff and Political Assistant have met separately with Valter Pomar, PT Secretary for International Relations; Jose Americo Dias, a PT Sao Paulo City Councilman; and Eloy Pieta, PT Mayor of Guarulhos, a city of 1.3 million on the periphery of Sao Paulo, who helped coordinate Lula's campaign in Sao Paulo state. Our discussions focused on the relationship between the PT and President Lula personally and his government, as well as PT perspectives on the Lula administration's agenda and priorities for the second term. Pomar is the leader of a small leftist faction within the PT who ran unsuccessfully for party president in September 2005. Dias, who is close to former Sao Paulo Mayor Marta Suplicy, and Pieta, who is the Mayor of Sao Paulo state's second-largest city, are influential within the party's state and local organizations.

LULA AND PT "INSEPARABLE"

¶5. (SBU) Both Valter Pomar and Jose Americo Dias began the conversations by warning us that anyone who gets their information from the Brazilian media will have a distorted view of the PT. Pomar decried what he called misinformation published and broadcast by the media and criticized those who would drive a wedge between the President and his party by alluding to a rupture. "Nothing that happens in the PT is alien to Lula. And he is responsible for everything that happens in the party." Lula, he continued, is President of the Republic, head of government, and founder/leader of the PT. This does not mean that Lula is legally answerable for everything that every party member does (and certainly not for actions that led to the political corruption scandals, which most PT members maintain were blown out of proportion by the media and the opposition), but that Lula and the party are inseparable. The PT views itself as autonomous from the government, but it supports the government and mobilizes the population so that the government will succeed. It also, Pomar added, tells the government and the President when the party faithful think they are heading down the wrong track. Dias, for his part, sees the PT as the "great negotiator for the masses" with the government.

¶6. (SBU) It was the social movements in the leftist wing of the PT, Pomar recalled, who issued a statement defending Lula and denouncing "golpismo" (an alleged attempt to overthrow a democratically elected government) on the part of the opposition and the media during the darkest days of the "mensalao" scandal in 2005. These movements - the Unified Labor Center (CUT), the Landless Movement (MST), and the National Students' Union (UNE) are the most prominent - also strongly supported Lula's re-election. That said, Pomar acknowledged that leftist tendencies within the party have on several occasions harshly criticized Lula's economic policies. But the real conflicts came from the opposition. While the social movements could be counted on to agitate for an expansion of social programs in the second term, Pomar predicted that any conflicts of this nature would be minor compared to those generated by the main opposition parties, the Brazilian Social Democracy Party (PSDB) and the Liberal Front Party (PFL).

LULA'S MANDATE

¶7. (SBU) All the PT officials we talked to saw the 2006 election as conferring a strong mandate on Lula and affirming his first-term record and his vision for Brazil. Mayor Pieta referred to low inflation, job creation, the increase in the minimum salary, low prices for food, and redistribution of income via such programs as

SAO PAULO 00001264 003 OF 006

Bolsa Familia as the reasons Lula won the election. Both Pomar and Dias said that while the reasons the election went to a second round - the "dossier" scandal in late September and Lula's decision not to participate in the final debate - were unfortunate, the second round itself was unequivocally good for both Lula and the PT, because it enabled him to differentiate himself from his opponent. Lula, Dias said, talked to the poor and about the poor; he quite consciously used the discourse of class struggle, but in a non-radical way. The second round highlighted the differences between the candidates. The values articulated by Lula -- no privatizations, emphasis on social policy -- prevailed over ex-Governor Geraldo Alckmin's. Pieta noted that Lula had governed cautiously during the first term, but would now be in a much stronger position to implement his agenda.

THE COALITION

¶8. (SBU) Pomar noted that the governing coalition Lula has put together is roughly the same as he had in the first term, with a few additions. The major difference is that he now has the support of virtually the entire PMDB (with a few Senators and Deputies holding out as "independents") instead of just one wing. This, Pomar said, will give the coalition more "quality." He did not believe, however, that the PMDB would necessarily get more Ministries or other senior appointments, as most observers expect. He also did not expect the PMDB to try to impose an agenda on the government. Thus, he expressed confidence that the PT's presence and influence in Lula's second administration will not be significantly diminished and does not believe the PT has quarrel with Lula about the way forward, despite reports to the contrary. Pieta, on the other hand, admitted that the PT would lose some representation in the government but said it wouldn't matter because the main advisors closest to Lula are all party faithful.

THE AGENDA

¶9. (SBU) With regard to the agenda for Lula's second term, the PT has a party line, an official story. The mantra is "growth of 5 percent." Dias asserted that "Brazil has a vocation for growth." The first and most important measure, according to our interlocutors, will be a reduction of interest rates. A change in exchange rate policy to bring down the strong Real is also possible, though this has not yet been decided. There will be increased emphasis on social policy and expansion of social programs; Pieta indicated that improving the Bolsa Familia cash transfer program will be a priority. There will also be increased investment in infrastructure via Public-Private Partnerships (PPPs). Dias spoke of removing legal and environmental impediments that have made it difficult to launch PPPs. These measures are expected to stimulate growth. Pomar said the reduction of interest rates will make a big

difference in the near term.

¶10. (SBU) Both Pomar and Dias were quite firm, however, in declaring that there will not be a reform of social security in the second term. Dias was explicit, saying that "FIESP's agenda lost the election," a reference to the powerful Sao Paulo State Federation of Industries, Brazil's most important business association. He noted that at the PT National Directorate's (DN) meeting in late November, acting party President Marco Aurelio Garcia had stated that "the defeated are trying to impose their losers' agenda" on the government, but that the PT would fight back.

Lula, according to Dias, had said more or less the same thing, albeit somewhat less bluntly. Social security reform is viewed as incompatible with the interests of the party's base. It is also highly doubtful that the government will propose either labor union reform ("reforma sindical") or industrial relations reform ("reforma

SAO PAULO 00001264 004 OF 006

trabalhista"). Pieta noted that it would be hard to get the unions' consensus on these reforms, and that Lula is reluctant to risk alienating part of his own base by asking workers to make any concessions.

¶11. (SBU) Lula's priority will be political reform, Pomar said. While this might mean different things to different members of Congress, there are some areas of convergence, including moving to a mixed party list and single district system for legislative elections, requiring party fidelity (no more party-jumping), and instituting public financing of political campaigns. Pomar said political reform would improve the quality of political discourse and of the legislative branch and thus would make it easier for the government to implement pro-growth policies and to work on de-concentrating wealth. Besides political reform, Pomar and Dias both said the government might propose a limited tax reform. However, while the government may attempt to make improvements in certain targeted areas of the tax system, our interlocutors do not believe it will attempt to significantly reduce the tax burden or make the system more transparent and less cumbersome.

¶12. (SBU) Foreign policy, all three PT officials said, will not change significantly in the second term. All praised Lula's "south-south" orientation. If Lula plans to alter course and reach out more to the United States, as has been reported, he apparently has not yet told his own party.

CONGRESSIONAL LEADERSHIP

¶13. (SBU) Pomar confirmed reports that Lula is supporting Aldo Rebelo of the Communist Party of Brazil (PC do B) for re-election as President of the Chamber of Deputies, because he thinks Rebelo is the candidate most likely to garner broad support. He acknowledged that the PT would prefer one of its own, notably Arlindo Chinaglia (PT-SP), but that ultimately the PT would line up behind the most viable candidate. Dias acknowledged that the PT's failure to elect its candidate to the National Accounting Court (reftel) suggests Chinaglia may have trouble rounding up the necessary votes for President, as the PT's coalition partners would prefer someone from another party.

PARTY CONGRESS AND INTERNAL ELECTIONS

¶14. (SBU) The PT will hold a National Congress in Brasilia in July 2007, only the third in its 27-year history. There will be three broad themes addressed: "The Brazil we want" (an attempt for the party to identify its goals for the country), PT socialism, and the conception of the PT. This last presumably refers to the question of whether the PT needs to be "re-founded," which was much talked about in 2005 in the wake of the corruption scandals. There remains a divide between the moderate majority faction ("Campo Majoritario") and the leftist tendencies and social movements. When Ricardo Berzoini of the majority faction won the party presidency in October 2005, some leftists defected to Heloisa Helena's Socialism and Liberty Party (PSOL), but most remained. Berzoini was forced to step aside in September 2006 when his name was linked to the "dossier" scandal. Pomar noted that because Berzoini had been elected by the PT membership, he could not be removed by the

National Directorate. Rather, he had removed himself temporarily until his role in the scandal could be clarified. Depending on the outcome of ongoing investigations, he could decide either to return or to resign. The National Congress is expected to move the party's internal elections up from late 2008 to late 2007. It is not clear whether either the Party Congress or the internal elections will revive the conflict between the party's factions. Pomar, despite his position as leader of the Axis of the Left, stressed unity. The

SAO PAULO 00001264 005 OF 006

PT, he said, intends to remain in power by electing a President in 2010 and therefore must remain united behind Lula to ensure the government's success and provide the party's candidate with a strong government record to run on.

MUNICIPAL ELECTIONS

¶15. (SBU) Dias said the PT is already looking ahead to the 2008 municipal elections. By August 2007, candidates and parties will be staking out their positions; thus, Lula has less than a year to move his agenda forward before the political distractions begin. (Note: Most observers believe that after the municipal elections, Lula will be a lame duck. End Note.) He said Marta Suplicy is the PT's most likely candidate for Mayor of Sao Paulo. Suplicy, who served as Mayor from 2001 through 2004 and lost her bid for re-election to (now Governor-elect) Jose Serra (PSDB), will run on a social platform of reversing policies instituted by Serra and his successor, Gilberto Kassab (PFL). She will bring back the Unified Education Centers that were a hallmark of her administration and will introduce a low-cost single ticket for public transportation. The municipal elections, he noted, offer the PT a chance to regain ground lost in Sao Paulo state.

¶16. (SBU) Dias predicted that Governor-elect Serra will run both the state and the city because his successor, Kassab, is politically weak. Many officials from Serra's time as Mayor continue to hold high positions in City Hall. Kassab lacks a majority on the City Council and isn't as well protected against negative press as Serra was. Though he may want to run for re-election, the PSDB-PFL coalition probably won't nominate him, because his management of the city's affairs has been mediocre, according to Dias. Another PFL leader, businessman Guilherme Afif Domingos, recently named State Secretary of Labor, would not make a good Mayoral candidate, in

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Dias's view, because "he has no social discourse."

¶17. (SBU) The most likely candidate to run against Suplicy, Dias said, is former Governor Alckmin. Serra may try to put obstacles in Alckmin's path - the two were rivals for the 2006 PSDB presidential nomination - but Alckmin can win the nomination if he wants it, and will be a strong candidate, (Comment: If Suplicy and Alckmin are the two major candidates for Mayor, it is reasonable to expect that neither of them will promise voters, as Serra did in 2002, that if elected they will serve the full four-year term and not seek election to any other office. End Comment.) However, Dias, who served as Municipal Secretary of Communications during Marta Suplicy's term as Mayor, believes Alckmin is too conservative and that Suplicy's social message will carry the day.

THE SUCCESSION

¶18. (SBU) If Suplicy wins, she will be in a strong position to become the PT's presidential nominee in 2010, Dias said. He dismissed Institutional Relations Minister Tarso Genro as a possible candidate, claiming Genro has no support among the party's rank and file ("he's only in the government because he's close to Lula"), and he didn't think Dilma Rousseff, Lula's Chief of the Civil Household, had the necessary political weight. Ciro Gomes, who served as Minister of National Integration in Lula's first term and was just elected Federal Deputy, remains a possibility to succeed Lula even though he's not a PT member but rather a Socialist. Finally, Dias thought that Jaques Wagner, just elected Governor of Bahia, could emerge as a strong contender. He added that "we're not a party of a single personality" and predicted that although there may not be many obvious candidates now, the PT will be ready when the time

comes.

SAO PAULO 00001264 006 OF 006

COMMENT

¶19. (SBU) The PT exceeded expectations in this year's election, in which they were widely expected to lose ground in the aftermath of the scandals. Nevertheless, we believe the party officials we spoke to are too optimistic about the degree of the party's influence over Lula and its ability to see its agenda implemented. The PMDB almost certainly expects more than the three Ministries it currently holds, and also expects to have an important say in the legislative agenda.

In fact, the coalition could fall apart if Lula does not satisfy the PMDB, which does not see eye-to-eye with the PT on many issues. And while Lula may believe Brazil can achieve 5 percent annual growth without addressing the threat to healthy fiscal accounts that the burgeoning social security deficit represents, at some point he will be disabused of this notion. (He is already reportedly backing away from last week's endorsement of a 5 percent growth target for 2007, projecting instead that GDP will grow only 4 percent.) While he remains loyal to the PT, the bonds are not as strong as they once were. Lula created a stir this week when he stated publicly that humanity tends to evolve towards the center and that anyone over 60 who remains on the left "has problems." Numerous sexagenarian (and older) party militants and ideologues expressed outrage, and even acting PT President Marco Aurelio Garcia, 65, reaffirmed that he is a "man of the left." Lula then tried to pass his remark off as a joke and accused his comrades of lacking a sense of humor.

¶20. (SBU) We also believe the PT is exaggerating the extent to which voters - even those who voted for Lula - support the party and its agenda. Nobody we talked to said anything about ethics, which used to be a PT marketing point. The PT has not yet come to terms with the institutional weaknesses that led to the corruption scandals, nor the degree of alienation among the populace, and does not appear to be trying to. Many PT members continue to talk and act as if the scandals were a minor distraction that have little or nothing to do with the party.

¶21. (SBU) We do not doubt that Lula will try to expand social programs and devote more attention to the poor if he can, but we think he will continue to govern more like the pragmatic centrist that he is, whether his party likes it or not. End Comment.

¶22. (U) This cable was cleared/coordinated by Embassy Brasilia.

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